SEQUESTRATION REPORT FOR FISCAL YEAR 1986: A SUMMARY

January 15, 1986

CONGRESSIONAL BUDGET OFFICE

CONGRESS OF THE UNITED STATES

Pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, P.L. 99-177

OFFICE OF MANAGEMENT AND BUDGET

EXECUTIVE OFFICE OF THE PRESIDENT

J932-5

A Joint Report to the
Comptroller General of the United States

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Honorable Charles A. Bowsher
Comptroller General of the United States

Dear Mr. Comptroller General:

In accordance with the provisions of the Balanced Budget and Emergency Deficit Control Act of 1985, Public Law 99-177, the Director of the Office of Management and Budget (OMB) and the Director of the Congressional Budget Office (CBO) do hereby submit to you, as the Comptroller General of the United States, the Sequestration Report for Fiscal Year 1986.

As required by law, this joint report:

- Estimates budget base levels, including the amount by which the projected deficit exceeds the maximum deficit amount for the fiscal year;
- Provides OMB and CBO economic assumptions, including the estimated rate of real economic growth; and
- Calculates the amounts and percentages by which various budgetary resources must be sequestered in order to eliminate any deficit excess.

The report is in three parts: a summary and two appendixes that provide a detailed listing of all sequestration reductions by agency and budget account, and by programs, projects, and activities for defense programs. The Directors of OMB and CBO were able to agree on the conceptual application of P.L. 99-177 to all budget accounts except one. This difference is discussed in the summary section.

Sincerely yours,

Rudolph G. Penner
Director
Congressional Budget Office

James C. Miller III
Director
Office of Management and Budget

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INTRODUCTION

The Balanced Budget and Emergency Deficit Control Act of 1985 (Public Law 99-177) stipulates that budget deficits must be decreased annually and specifies measures that must be taken to achieve this result. The maximum deficit amounts specified by the Act are:

Fiscal Year	Maximum Deficit (in billions of dollars)
1986	171.9
1987	144.0
1988	108.0
1989	72.0
1990	36.0
1991	zero

If the deficit is estimated to exceed the maximum level by any amount in 1986 and 1991, or by more than $10 billion in 1987-1990, an automatic spending reduction procedure is triggered to eliminate the excess deficit through the sequestration of budgetary resources. Except for trust and special funds, this involves the permanent cancellation of new budget authority and other authority to obligate and expend funds. For 1986, the outlay reduction is limited by the Act to a maximum of $11.7 billion, regardless of the amount of the excess deficit. In later years, the amount of possible outlay reductions is not limited.

The first step in the sequestration process is a joint report by the Director of the Office of Management and Budget (OMB) and the Director of the Congressional Budget Office (CBO) to the Comptroller General that:

- Estimates budget base levels, including the amount by which the projected deficit exceeds the maximum deficit amount for the fiscal year covered by the report;
- Provides OMB and CBO economic assumptions, including the estimated rate of real economic growth; and
- Calculates the amounts and percentages by which various budgetary resources must be sequestered in order to eliminate any deficit excess.

For fiscal year 1986, the joint OMB/CBO report to the Comptroller General is to be made on January 15, 1986. For subsequent years, the Directors will make an initial report on August 20 and a revised report on October 5 to reflect final Congressional action on the budget during the month of September.

The Comptroller General will review the Directors' reports and issue his own reports to the President and the Congress that confirm or modify the information reported by OMB and CBO. The Comptroller General's reports will become the basis for reductions in budgetary resources to be ordered by the President. In 1986, the Comptroller General's report to the President will be made on January 21, 1986. In subsequent years, his initial report will be made on August 25 and his revised report on October 10.

The Presidential order to sequester funds specified by the Comptroller General will be issued on February 1 for 1986 and on September 1 for subsequent years. Unless the Congress acts--and the President agrees--to modify the sequestration results by adopting an alternative deficit reduction plan, the 1986 reductions will take effect March 1, 1986 and the 1987-1991 reductions on October 1. Any Congressional action taken during September to reduce excess deficits for 1987-1991 will be reflected in a final Presidential order to be issued on October 15.

BUDGET BASE LEVELS

This report is concerned only with fiscal year 1986. The OMB and CBO estimates of total revenues, outlays, and the deficit for 1986 are shown in Table 1. These estimates are made in accordance with the specifications set forth in the Act. They assume that current law for revenues and entitlements will continue unchanged, and that expiring provisions will terminate as scheduled, such as the extension of the 8 cent cigarette excise tax increase and

TABLE 1. BUDGET BASE LEVELS FOR 1986
(In billions of dollars)

Budget Aggregates	OMB Estimates	CBO Estimates	Average
Revenues	774.9	777.2	776.0
Outlays	994.9	998.0	996.5
Deficit	220.1	220.9	220.5

SOURCES: Congressional Budget Office and Office of Management and Budget.

the temporary reduction in federal employees' retirement fund contributions. 1/ For spending accounts that require appropriations, the OMB and CBO estimates are based on the appropriations enacted for fiscal year 1986, including the continuing resolution that covers the full fiscal year. As required by the Act, the budget estimates include the receipts and disbursements of the social security trust funds as well as those of various federal entities that formerly were off-budget.

OMB's deficit estimate for 1986 is $220.1 billion, and CBO's deficit estimate is $220.9 billion. An average of the two deficit estimates is $220.5 billion, which exceeds the maximum deficit amount of $171.9 billion by $48.6 billion. For fiscal years 1987 through 1991, the amount of deficit reduction to be achieved through the sequestration of budgetary resources would be determined by subtracting the maximum deficit amount specified by the Act from the average of the OMB and CBO deficit estimates. For 1986 only, however, the deficit reduction is not to exceed $11.7 billion. 2/

ECONOMIC ASSUMPTIONS

The principal economic assumptions underlying the OMB and CBO budget base level estimates for fiscal year 1986 are shown in Table 2.

The Act requires the OMB and CBO Directors to estimate the rate of real economic growth for the fiscal year covered by their report, for each quarter of the fiscal year, and for the last two quarters of the preceding fiscal year. The estimates for the rate of real economic growth for fiscal year 1986 are included in Table 2 and the quarterly estimates are shown in Table 3.

SEQUESTERABLE RESOURCES

The required reductions in outlays are not made directly; rather, they are to be achieved by the permanent cancellation of budget authority and other authority to obligate and expend funds--referred to under P.L. 99-177 as

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1. The Act permits an exception to the expiring-provision assumption for excise taxes dedicated to a trust fund and for Commodity Credit Corporation price support programs. In these cases, the budget base levels are to assume extension through the fiscal year at current rates. For example, superfund excise taxes, which expired September 30, 1985, are assumed to have been extended for the 1986 revenue estimates.

2. The Act limits the deficit reduction amount for 1986 to $20 billion at an annual rate. Since the sequestration of funds will not take effect until March 1, or five months after the fiscal year began, the Act prorated the maximum deficit reduction to seven-twelfths of $20 billion, or $11.7 billion.

sequestration. For defense programs, sequesterable budgetary resources are new budget authority provided for 1986 and unobligated balances of budget authority provided in previous years. For nondefense programs, the sequesterable budgetary resources are new budget authority, new direct loan obligations, new loan guarantee commitments, obligation limitations, and spending authority as defined in section 401(c)(2) of the Congressional Budget Act of 1974 (spending authority not subject to the annual control of the appropriations process). Included in this definition of spending authority are federal payments financed by offsetting collections that are credited to budget accounts as well as various permanent appropriations.

Not all budgetary resources are subject to sequestration. The Act exempts a number of programs and activities of the federal government from the sequestration process, including social security benefits, veterans' compensation and pensions, regular state unemployment insurance benefits, net interest, medicaid, aid to families with dependent children, food stamps, supplemental security income, child nutrition, and the women, infants, and children program.

TABLE 2. ECONOMIC ASSUMPTIONS (Fiscal Year 1986)

Economic Variable	OMB	CBO
Gross National Product:		
Current dollars (in billions of dollars)	4,209	4,192
Percent change, year over year	6.9	6.5
Constant (1982) dollars (in billions of dollars)	3,675	3,658
Percent change, year over year	3.5	3.0
GNP Implicit Price Deflator (percent change, year over year)	3.3	3.4
CPI-W (percent change, year over year)	3.3	3.3
Civilian Unemployment Rate (percent, fiscal year average)	6.9	6.9
Interest Rates (fiscal year average)		
91-day Treasury bills	7.3	6.9
10-year Treasury notes	9.2	9.2

SOURCES: Congressional Budget Office and Office of Management and Budget.

Also exempt from sequestration are prior legal obligations of the government in certain specified budget accounts, as well as the program bases for programs with automatic spending increases resulting from changes in price indexes (mostly retirement and disability programs). Federal administrative expenses for otherwise exempt programs and activities, however, are sequesterable, including programs that are self-supporting.

For 1986 only, the Act gives the President the authority to exempt all or part of the military personnel accounts from sequestration. The President has decided to use this authority and has exempted $63.1 billion, or 93 percent, of the 1986 appropriations for these accounts. Outlays from obligated balances for defense programs, as well as from prior-year appropriations for nondefense programs, are generally not subject to sequestration. Although defense contracts can be modified or terminated to achieve outlay savings, the President has chosen not to do so for fiscal year 1986.

Certain programs and activities, while not exempt, are subject to special rules that have the effect of limiting the amount of the spending reduction. For example, the sequestration of budgetary resources for medicare, veterans' medical care, and certain health programs is limited to 1 percent in 1986 and 2 percent annually in 1987 through 1991. On the other hand, the total amount of the automatic spending increases (primarily cost-of-living adjustments) are sequesterable.

For credit programs, the governing measures of sequesterable budgetary resources are direct loan obligations and loan guarantee commitments. The Act requires de facto limitations on both types of new credit activity.

TABLE 3. REAL ECONOMIC GROWTH RATES BY QUARTER
(In percents, annual rates)

	FY 1985 Actual a/		FY 1986 Estimates			
	Apr-Jun 1985	Jul-Sep 1985	Oct-Dec 1985	Jan-Mar 1986	Apr-Jun 1986	Jul-Sep 1986
OMB	1.1	3.0	4.2	4.0	4.0	4.0
CBO	1.1	3.0	3.2a/	3.5	3.3	3.4

SOURCES: Congressional Budget Office and Office of Management and Budget.

a. As reported by the Department of Commerce (December 20, 1985).

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Table 4 provides further detail on the OMB and CBO base level outlay estimates for 1986. About $110 billion of estimated 1986 outlays for defense programs, or 40 percent of total defense spending, are associated with budgetary resources subject to an across-the-board percentage reduction. The special 1986 exemption for military personnel accounts made by the President removed more than $60 billion in outlays from the sequesterable portion.

About $240 billion, or one-third of estimated outlays for nondefense programs, is associated with sequesterable budgetary resources. Nearly $50 billion in outlays are for programs with automatic spending increases, primarily federal employee retirement and disability programs. For these programs, the amount of spending reduction required by the Act is limited to the cost-of-living adjustments, which are generally 3.1 percent for 1986. Another $87 billion in outlays are associated with certain special rule programs, of which the largest is medicare. The Act also limits the extent of spending reductions for these programs. Only slightly more than $100 billion in estimated 1986 nondefense outlays--about 15 percent--are associated with budgetary resources subject to an across-the-board percentage reduction. Over $380 billion, or more than one-half of total estimated outlays for nondefense programs, are exempt from sequestration by the Act. As shown by Table 4, the major exempt program outlays are mostly for social security and net interest. The remaining portion of nondefense outlays, about $100 billion, results from budgetary resources provided in previous years or from prior legal obligations.

SEQUESTRATION CALCULATIONS

The Balanced Budget and Emergency Deficit Control Act establishes the following steps for the sequestration calculations. First, the deficit excess is calculated by subtracting the maximum amount from the estimated deficit in the budget base. One-half is assigned to defense programs (budget accounts in function 050) and the other half to nondefense programs.

Second, the total amount of outlay savings from eliminating automatic spending increases is calculated. Provided that the resulting savings are not more than one-half of the total required reduction, the automatic increases are eliminated. One-half of the resulting savings for indexed retirement and disability programs are applied toward the required reduction amount for defense programs and the other half to nondefense programs. All savings from eliminating automatic spending increases in three other specific programs--the National Wool Act, the special milk program, and vocational rehabilitation--are applied to the required reduction in outlays for nondefense programs.

TABLE 4. BASE LEVEL OUTLAY ESTIMATES FOR 1986
(In billions of dollars)

Category	OMB Estimates	CBO Estimates	Average
Defense Programs a/			
Subject to across-the-board reduction	106.2	112.4	109.3
Other b/	164.7	162.1	163.4
Subtotal, defense programs	270.9	274.6	272.8
Nondefense Programs			
Programs with automatic spending increases c/	48.9	48.4	48.6
Certain special rule programs d/	87.0	87.1	87.1
Subject to across-the-board reduction	104.3	106.1	105.2
Major exempt programs			
Social security and railroad retirement tier 1	202.6	202.0	202.3
Net interest	137.9	136.9	137.4
Earned income tax credit	1.3	1.3	1.3
Low-income programs e/	60.9	61.1	61.0
Veterans compensation and pensions	14.3	14.3	14.3
State unemployment benefits	18.2	18.1	18.2
Offsetting receipts	-50.2	-50.5	-50.4
Other f/	98.8	98.7	98.8
Subtotal, nondefense programs	724.0	723.4	723.7
Total	994.9	998.0	996.5

SOURCES: Congressional Budget Office and Office of Management and Budget.

a. Budget function 050 excluding FEMA programs.
b. Outlays from obligated balances and the portion of military personnel accounts exempted by the President for 1986.
c. Primarily federal employee retirement and disability programs.
d. Guaranteed student loans, foster care and adoption assistance, medicare, veterans medical care, community health, migrant health, and Indian health.
e. AFDC, child nutrition, medicaid, food stamps, SSI, and WIC.
f. Outlays from prior-year appropriations, certain prior legal obligations, and small exempt programs.

Third, the amount of outlay savings to be obtained by applying four special rules is calculated. These special rules are for guaranteed student loans, foster care and adoption assistance, medicare, and certain health programs, and are described in a later section of this report. 3/ The estimated savings from these four special rules are applied toward the required spending reductions in nondefense programs.

The remaining reductions in defense programs and nondefense programs must be taken on a uniform percentage basis, computed separately for each category. The uniform reduction percentages are computed from outlay estimates. The remaining outlay savings to be achieved in defense and nondefense spending are divided by the estimated outlays associated with sequesterable budgetary resources in each category. These uniform percentages are then applied to all of the remaining sequesterable budgetary resources (budget authority, credit authority, and other spending authority) for defense and nondefense programs.

In the event that the Directors of OMB and CBO are unable to agree on any of these calculations, the Act requires that their estimates be averaged to the extent necessary to produce a single, consistent set of data that achieves the required deficit reduction.

Table 5 shows the OMB and CBO calculations and the averaged amounts for each of the steps described above. The total required outlay reduction for 1986 is $11.7 billion, one-half of which--$5,850 million--must be obtained from defense programs and the other half from nondefense programs. An estimated $994 million in outlay savings in 1986 can be achieved by eliminating the automatic spending increases scheduled for civil service, military, and other federal retirement and disability programs. Another $45 million in savings can be obtained by eliminating the automatic spending increases for vocational rehabilitation grants and the National Wool Act (the special milk program is also an indexed program but in 1986 the change in the price index is projected to be negative). The outlay savings for programs where the spending reductions are limited by special rules (guaranteed student loans, medicare, and so forth) are estimated to be $397 million.

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3. There are a number of special rules for other programs, such as the Commodity Credit Corporation, but they do not enter into the sequester calculations at this step.

TABLE 5. SEQUESTRATION CALCULATIONS FOR 1986
(Outlays in millions of dollars)

Category	OMB	CBO	Average
Defense Programs:			
Total required reductions	5,850	5,850	5,850
Estimated savings from automatic spending increases:			
Indexed retirement programs a/	496	497	497
Amount remaining to be obtained from uniform percentage reductions of budget resources	5,354	5,353	5,353
Estimated outlays associated with sequesterable budget resources	106,225	112,446	109,335
Uniform reduction percentage	5.0	4.8	4.9
Nondefense Programs:			
Total required reductions	5,850	5,850	5,850
Estimated savings from automatic spending increases:			
Indexed retirement programs	496	497	497
Other indexed programs	45	45	45
Estimated savings from the application of special rules:			
Guaranteed student loans	10	10	10
Foster care and adoption assistance	5	5	5
Medicare	300	300	300
Other health programs	82	83	82
Amount remaining to be obtained from uniform percentage reductions of budget resources	4,912	4,911	4,912
Estimated outlays associated with sequesterable budget resources b/	114,444	115,080	114,762
Uniform reduction percentage	4.3	4.3	4.3

SOURCES: Congressional Budget Office and Office of Management and Budget.

a. These retirement programs are not included in the national defense function of the budget; most are included in the income security function.

b. Includes estimated 1987 outlays for the Commodity Credit Corporation (CCC) that can be affected by a 1986 sequester (see discussion of special rule for the CCC). The OMB estimate is $10,095 million, the CBO estimate is $8,940 million, and the average is $9,518 million.

After crediting one-half of the retirement cost-of-living adjustment (COLA) savings to defense programs, the remaining outlay reductions of $5,353 million in 1986 must be obtained by reducing new budget authority and unobligated balances by a uniform percentage. Since the bulk of the military personnel accounts have been exempted by the President from sequestration, 1986 outlays associated with sequesterable budgetary resources for defense programs are estimated to be only $106.2 billion by OMB and $112.4 billion by CBO. The average of these amounts is $109.3 billion. Thus, the uniform percentage to be applied to sequesterable defense budgetary resources is 4.9 percent. The uniform percentage to be applied to nondefense programs, after deducting the savings from one-half of the retirement COLAs and the special rule calculations, is 4.3 percent.

The OMB/CBO calculations generally assume that all nonexempt budgetary resources can be sequestered so as to produce outlay savings, including entitlement programs and other mandatory spending programs where the spending authority is not controlled through the annual appropriation process. In a few instances where the uniform percentage reduction of budgetary resources would not produce any outlay savings (for example, for credit programs where new direct loan limits are higher than expected program levels), no outlays were included in the sequester base used for calculating the reduction percentages.

AUTOMATIC SPENDING INCREASES

The programs with automatic spending increases subject to sequestration by the Balanced Budget and Emergency Deficit Control Act are listed in Table 6. The scheduled percentage increases are shown as well as the amount of estimated outlay savings to be gained by eliminating these increases. The independent OMB and CBO estimates for the amounts to be reduced by sequestration are very similar. Table 6 shows the average of these estimates for each program.

SPECIAL RULES

The Balanced Budget and Emergency Deficit Control Act provides special rules for the sequestration of budgetary resources for certain federal programs. This section describes these special rules and their application to the 1986 sequestration calculations. The estimated outlay savings derived from the first four rules are shown separately in Table 5. Any outlay savings resulting from the remaining special rules are included in the amount to be obtained from the uniform percentage reductions.

Guaranteed Student Loan Program

The Act requires two changes in the guaranteed student loan (GSL) program to occur automatically under sequestration. First, the statutory factor for calculating the special allowance for lenders will be reduced by 0.40 percentage points in the first year of the loan. Second, a student's origination fee will increase by 0.50 percentage points. In both cases, sequestration affects only GSL loans made during the applicable fiscal year, but after the order is issued. For 1986, these changes are estimated to reduce budget authority by $34.1 million and outlays by $9.6 million.

TABLE 6. AUTOMATIC SPENDING INCREASES FOR 1986 SUBJECT TO SEQUESTRATION (Outlays in millions of dollars)

Program	Scheduled Increase (percent)	Sequestration Reductions	
		Outlays	Percent
Part A, Retirement and Disability Programs			
Black lung benefits a/	---	---	---
CIA retirement and disability system fund	3.1	b/	100
Civil service retirement and disability fund	3.1	534.5	100
Comptrollers general retirement system	3.1	c/	100
Foreign service retirement and disability fund	3.1	5.9	100
Judicial survivors' annuities fund a/	---	---	---
Longshoremen's and harbor workers' compensation benefits d/	2.7	---	---
Military retirement fund	3.1	409.1	100
NOAA retirement	3.1	0.2	100
Pensions for former Presidents a/	---	---	---
Railroad Retirement Tier II e/	1.0	18.0	100
Retired pay, Coast Guard	3.1	8.6	100
Retirement pay for commissioned PHS officers	3.1	2.3	100
Special benefits, FECA f/	3.4	15.0	100

(Continued)

Foster Care and Adoption Assistance Programs

The Act limits the amount available for sequester in the foster care and adoption assistance programs to increases in foster care maintenance payment rates or adoption assistance payment rates taking effect during the current fiscal year. Moreover, they are limited to the extent that the reduction can be made by reducing federal matching payments by a uniform percentage across states. The increases in payment rates for these programs are made by the states and localities. Any increases planned by the states in fiscal year 1986, and prorated

TABLE 6. (Continued)

Program	Scheduled Increase (percent)	Sequestration Reductions	
		Outlays	Percent
Special benefits for disabled coal miners a/	---	---	---
Tax Court judges survivors annuity fund a/	---	---	---
Total, Part A		993.5	
Part B, Other Indexed Programs			
National Wool Act g/	4.8	10.3	100
Special milk program h/	-2.6	---	---
Vocational rehabilitation i/	4.2	34.5	100
Total, Part B		44.8	

SOURCES: Congressional Budget Office and Office of Management and Budget.

a. Benefits are indexed to General Schedule, judicial, or Executive Level pay, which did not increase for fiscal year 1986.
b. Classified.
c. Less than $50,000.
d. The automatic spending increase in this program took effect October 1, 1985 before enactment of P.L. 99-177. Benefits were indexed to the change in national average private weekly earnings from October to June 1984 to October to June 1985.
e. Tier II beneficiaries receive 32.5% of the scheduled full year increase in the CPI-W.
f. The scheduled percent increase is the estimated change in the CPI-W from December 1984 to December 1985.
g. Payment increases are based on changes in the wool parity price.
h. Benefits are indexed to the Producer Price Index for Fresh Processed Milk which is estimated to decline during the measuring period for the 1986 COLA (May 1985 to May 1986).
i. Authorization level is indexed to the change in the CPI-U from October 1983 to October 1984.

for the period after March 1, were included in the OMB and CBO calculations for sequestration reductions. The estimated savings in 1986 from sequestration are $6.6 million in budget authority and $5.1 million in outlays.

Medicare

The sequestration reductions in the medicare program are to be achieved by reducing payment amounts for covered services. No changes in co-insurance or deductible obligations are to be made, and covered services are unaffected under a sequestration order. Under such an order, each payment amount would be reduced by a maximum of 1 percent for fiscal year 1986 and 2 percent for each subsequent year in which there is sequestration, relative to whatever level of payment would otherwise be made under medicare law and regulation. The reduction would be proportionately reduced in any year in which the excess deficit is small enough to permit a smaller reduction. Based on the need for the maximum sequestration allowed under the Act in 1986, a reduction of 1 percent will be required for this year. The estimated outlays savings to be achieved in 1986 by applying this special rule is $300 million. In addition, the sequestration of medicare administrative expenses is estimated to save another $74.5 million in outlays.

Veterans' Medical Care and Other Health Programs

The Act limits reductions in budget authority for veterans' medical care, community and migrant health centers, and Indian health services and facilities to 1 percent in fiscal year 1986 and 2 percent in any subsequent fiscal year. The amount of savings to be achieved in 1986 by applying this special rule for the nonadministrative funds in these programs is $97.9 million in budget authority and $82.6 million in estimated outlays. Application of the uniform sequestration reduction percentage to the administrative funds in these programs yields additional savings of $35.6 million in budget authority and $33.4 million in outlays.

Child Support Enforcement Programs

In the child support enforcement (CSE) program, the Act provides that sequestration of entitlement payments to states, including incentive payments from the assistance payments account, is to be accomplished by reducing the federal matching rates for state administrative expenses. For 1986, the federal matching rate on most expenditures will be reduced from 70 percent to 66.65 percent; the rate for computer-related expenditures will be reduced from 90 percent to 85.69 percent. This reflects a reduction in the matching rates by the same 4.3 percent applied to other nondefense programs, adjusted to allow also for the sequestration of spending on incentive payments.

If states increase their share of CSE spending to maintain total program spending at the expected 1986 level, this reduction in the federal matching rate will lower federal outlays by the same percentage as other nondefense programs. If states do not increase their 1986 spending, however, the lower federal matching rate would result in a larger percentage reduction in federal spending than the Act requires. How states will react to the 1986 sequestration is not known, but their reactions will be monitored and taken into account when calculating future sequestration reductions. The amount of savings to be achieved in 1986 by applying this special rule is estimated to be $31.7 million in budget authority and $31.4 million in outlays.

Unemployment Compensation Programs

The Act provides that the following items are not available for sequester: regular state unemployment benefits, the state share of extended unemployment benefits, benefits paid to former federal employees and former members of the armed services, and loans and advances to the state and federal unemployment accounts. The federal share of extended benefits and federally paid benefits and administrative expenses are available for sequester. The Act also provides that states may, without penalty, reduce their share of federal-state extended unemployment benefits if the federal share of benefits is reduced by a sequester order. The Act is silent with respect to unemployment benefits for railroad workers; these benefits, therefore, are presumed to be sequesterable.

The amount of the percentage reduction in payments to the states under section 204 of the Federal-State Extended Unemployment Compensation Act of 1970 for fiscal year 1986, effective March 1, 1986, is 4.3 percent. The estimated amount of outlay savings that will be achieved in 1986 by applying this special rule to the federal share of extended benefits and federally paid benefits and administrative expenses is $74 million. The sequestration of unemployment benefits for railroad workers would save another $7.8 million.

Commodity Credit Corporation

The Act requires that payments and loan eligibility under any contract entered into by the Commodity Credit Corporation (CCC) after a sequester order has been issued for a fiscal year be subject to a percentage reduction. The Act requires that reductions for all farm commodities supported by the CCC be made in a uniform manner, including all noncontract programs, projects, and activities within CCC's jurisdiction. The Act further stipulates that outlay reductions in the post-sequester year that are the result of contract adjustments in the sequester year should be credited to the overall outlay reduction required in the sequester year. The amount of outlay savings to be achieved by applying

this special rule is estimated to be $0.4 billion in 1986, and $0.4 billion in 1987. The actual amount of savings realized in each year will depend upon how the sequester is implemented for the various CCC programs. In accordance with the Act, however, all of these estimated outlay savings are credited toward the $11.7 billion spending reduction required for 1986.

Mine Workers Disability Compensation

Increases in disability benefits under the Federal Mine Safety and Health Act are to be treated in the same manner as other automatic spending increases. This Act covers black lung and special benefits for disabled coal miners, which are indexed to changes in federal pay for civilian employees. Since there will be no change in these pay levels in 1986, no savings will result from the application of this special rule.

Federal Pay

The Act provides that rates of pay for civilian employees (and rates of basic pay, basic subsistence allowances, and basic quarter allowances for members of the uniformed services), or any scheduled pay increases, may not be reduced pursuant to a sequestration order. Budgetary resources available for federal pay, however, will be subject to sequestration as part of the reduction of administrative expenses. The amount of savings to be achieved in 1986 from reducing available funds for employee compensation cannot be estimated because program managers are urged not to resort to personnel furloughs until other methods of achieving savings prove insufficient, such as reducing spending for travel, printing, supplies, and other services.

Defense Contracts

Existing contracts in defense programs can be terminated or modified to achieve outlay savings if such action would neither result in a net loss to the government nor violate the legal obligations of the government, and if the President notifies the Comptroller General and the Congress of proposed contract terminations and modifications by specified dates (January 15, 1986 for fiscal year 1986 and not later than September 5 for subsequent years). No defense contract terminations or modifications are proposed for 1986 sequestration reductions.

SEQUESTRATION REDUCTIONS

A summary of the sequestration of budgetary resources and the estimated outlay savings for 1986 is provided for defense programs in Table 7 and for nondefense

programs in Table 8. Table 9 provides a summary of the 1986 sequestration reductions by agency. In most instances, additional outlay savings would be gained in 1987 and later fiscal years as a result of the elimination of various 1986 automatic spending increases and the cancellation of 1986 budget authority. The 1987 savings have not been estimated for this report, but will be included in the President's budget for 1987 and the CBO annual report to the Budget Committees in February.

TABLE 7. DEFENSE PROGRAM SEQUESTRATIONS FOR 1986
(In billions of dollars)

Function 050	Spending Authority a/	Estimated Outlays
Department of Defense-Military:		
Military personnel	0.2	0.2
Operation and maintenance	3.9	2.9
Procurement	6.6	0.9
Research, development, test, and evaluation	1.9	0.9
Military construction	0.5	0.1
Family housing and other	0.2	0.1
Subtotal, DoD	13.3	5.1
Atomic energy defense activities	0.4	0.2
Other defense-related activities b/	0.1	c/
Total	13.8	5.4

SOURCES: Congressional Budget Office and Office of Management and Budget.

a. Includes new budget authority for 1986 and unobligated balances from budget authority provided in previous years.

b. Includes the function 050 portion of Federal Emergency Management Agency budget accounts which are reduced at the same rate as nondefense programs.

c. Less than $50 million.

TABLE 8. NONDEFENSE PROGRAM SEQUESTRATIONS FOR 1986
(In billions of dollars)

Function	Spending Authority a/	Direct Loan Obligations	Loan Guarantees	Estimated Outlays
International affairs	0.9	0.3	0.5	0.5
General science, space and technology	0.4	---	---	0.3
Energy	0.3	0.2	0.1	0.1
Natural resources and environment	0.6	b/	---	0.4
Agriculture	0.9	0.7	0.3	1.0 c/
Commerce and housing credit	0.2	0.2	5.7	0.2
Transportation	1.9	b/	b/	0.4
Community and regional development	0.2	0.1	b/	0.1
Education, training, employment, and social services	1.2	b/	---	0.4
Health	0.5	b/	---	0.3
Medicare	0.4	---	---	0.4
Income security	1.8	b/	---	1.3
Social security	0.1	---	---	0.1
Veterans benefits and services	0.2	b/	0.5	0.2
Administration of justice	0.3	---	---	0.3
General government	0.3	---	---	0.3
General purpose fiscal assistance	0.3	---	---	0.2
Total	10.5	1.6	7.3	6.3

SOURCES: Congressional Budget Office and Office of Management and Budget.

a. Includes new budget authority, obligation limitations, and other spending authority for 1986.

b. Less than $50 million.

c. Includes $0.4 billion in estimated 1987 outlay savings for Commodity Credit Corporation (CCC) programs (see discussion of special rule for CCC).

TABLE 9. SEQUESTRATIONS FOR 1986 BY AGENCY
(In billions of dollars)

Department or Other Unit	Spending Authority a/	Direct Loan Obligations	Loan Guarantees	Estimated Outlays
Legislative Branch	0.1	---	---	0.1
The Judiciary	b/	---	---	b/
Executive Office of the President	b/	---	---	b/
Funds appropriated to the President	0.6	0.3	b/	0.3
Agriculture	1.3	1.1	0.5	1.3 c/
Commerce	0.1	b/	b/	0.1
Defense-Military	13.3	---	---	5.1
Defense-Civil	0.6	---	---	0.5
Education	0.7	b/	---	0.2
Energy	0.6	---	---	0.3
Health and Human Services	1.3	b/	---	1.0
Housing and Urban Development	0.7	b/	5.5	b/
Interior	0.3	b/	b/	0.2
Justice	0.2	---	---	0.1
Labor	0.4	---	---	0.2
State	0.1	b/	---	0.1
Transportation	1.8	b/	b/	0.4
Treasury	0.4	---	---	0.4
Environmental Protection Agency	0.1	b/	---	b/
General Services Administration	0.1	---	---	b/
National Aeronautics and Space Administration	0.3	---	---	0.2
Office of Personnel Management	0.6	---	---	0.6
Small Business Administration	b/	0.1	0.2	b/
Veterans Administration	0.2	b/	0.5	0.2
Other independent agencies	0.4	0.1	0.5	0.3
Total	24.3	1.6	7.3	11.7

SOURCES: Congressional Budget Office and Office of Management and Budget.

a. Includes new budget authority for 1986, unobligated balances from budget authority provided in previous years (Defense-Military and other function 050 programs and certain administrative costs), obligation limitations for and other spending authority for 1986.

b. Less than $50 million.

c. Includes $0.4 billion in estimated 1987 outlay savings for Commodity Credit Corporation (CCC) programs (see discussion of special rule for CCC).

A detailed listing of the sequestration reductions by agency and budget account is provided as a separate part to this report. Also included as a separate part is a detailed listing of sequestration reductions of budgetary resources for defense programs, projects, and activities within each budget account.

CONCEPTUAL ISSUE

OMB and CBO were unable to resolve a conceptual issue regarding the application of P.L. 99-177 to interest payments made to the Washington Metropolitan Area Transit Authority (WMATA).

Under the authority of the National Capital Transportation Act of 1969, as amended, the Secretary of Transportation has guaranteed the principal and interest of $997 million in borrowing by WMATA. The National Capital Transportation Amendments of 1979 further authorized the Secretary of Transportation to pay two-thirds of the principal and interest due on these federally guaranteed WMATA bonds. By agreements between the Secretary and the Authority, executed in 1979 and 1982, the federal government has made interest payments to WMATA. These payments are conditional on compliance with the Antideficiency Act, as amended, which prohibits expenditures in advance of, or in excess of, available appropriations. The Congress has regularly appropriated funds to cover the federal obligation to WMATA, including the payments to be made in 1986, which amount to about $51.7 million.

CBO regards the 1986 WMATA interest payment appropriation as nonsequesterable on two grounds. First, the federal obligation grows out of an existing contract that was authorized by law and is fully funded for 1986 by an appropriation act. Under P.L. 99-177, contractual obligations of the federal government incurred before the issuance of a sequester order are, in CBO's view, not subject to sequestration except for certain defense contracts. Second, WMATA bonds are federally guaranteed both as to principal and interest. If the federal government defaults on its obligation to pay its interest share by reason of a sequester, the government nevertheless would remain liable for the full payment under the guarantee, a liability which CBO believes is enforceable by claim against the United States. CBO believes that if a sequestration would ultimately and necessarily be defeated by claims, judgments, and relief acts, which are exempt from sequestration, then the amount in question should not be sequestered.

OMB agrees that the WMATA appropriation ought not to be sequestered, but does not believe this outcome is permitted by the language of P.L. 99-177. The Act provides exemptions for certain named prior legal obligations and,

more generally, for obligated balances in nondefense accounts. Section 255(g)(2) of the Act specifically exempts from sequestration the prior legal obligations of 46 credit programs that provide federal guarantees similar to the guarantee provided to the WMATA bonds. OMB believes that an exemption for the WMATA guarantee should have been added to this list, but it was not. In addition, because the WMATA payment is expressly subject to the availability of an annual appropriation, and because all of the payment for 1986 has not yet been obligated, OMB further believes that an exemption for WMATA interest payments based on the existence of an obligated balance is not applicable.

In the meantime, section 251(a)(5) of the Act requires averaging the disagreement over the amount subject to sequestration in the WMATA account, $0 in the case of CBO and $51.7 million in the case of OMB--or an average of $25.8 million. Both Directors are of the view that averaging produces a result that is not consistent with either of their legal positions on the proper treatment of the WMATA interest payment.

Because the amount in disagreement is so small, adoption of one position or the other by the Comptroller General would have no effect on the uniform percentage reduction to be used in sequestering nondefense accounts. The only recalculation required would be in the WMATA account.